

Message Text

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ACTION EUR-12

INFO OCT-01 ISO-00 CEA-01 TRSE-00 FRB-03 AID-05
CIAE-00 COME-00 EB-08 EA-10 INR-10 IO-13 NEA-10
NSAE-00 USIA-06 OPIC-03 SP-02 LAB-04 SIL-01
AGRE-00 OMB-01 SS-15 /105 W
-----061821 010804Z /11
R 311633Z MAR 78
FM AMEMBASSY PARIS
TO SECSTATE WASHDC 9394

LIMITED OFFICIAL USE SECTION 01 OF 02 PARIS 10724

USOECD

PASS: EUR/RPE (GELBARD); CEA; TREASURY; FRB

E.O. 11652: N/A
TAGS: OECD, ECON, US
SUBJECT: VISIT OF OECD SECRETARIAT TEAM TO PREPARE FOR
EDRC REVIEW OF THE U.S.

REF: (A) PARIS 10461; (B) STATE 79520; (C) PARIS 9730

1. SECRETARIAT HAS SENT LETTER TO MISSION ENUMERATING
SOME SPECIFIC AREAS OF SUBSTANTIVE INTEREST THAT SECRE-
TARIAT TEAM WILL WISH TO PURSUE IN DISCUSSIONS WITH U.S.
AGENCIES. SECRETARIAT ALSO CONFIRMS THAT MISSION,
HEADED BY KJELL ANDERSEN, WILL ARRIVE IN WASHINGTON ON
TUESDAY EVENING, APRIL 18 AND DEPART ON ITS RETURN TRIP
TO PARIS ON AFTERNOON OF APRIL 21.

2. TEXT OF LETTER DESCRIBING SECRETARIAT'S INTEREST IS
AS FOLLOWS: BEGIN TEXT

IN ADDITION TO THE USUAL AREA THAT WE WILL HAVE TO COVER
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IN OUR NEXT SURVEY OF THE UNITED STATES, I.E., SHORT-
TERM TRENDS AND PROSPECTS, WE ARE ESPECIALLY INTERESTED
IN TWO MAIN TOPICS, THE INFLATION AND THE BALANCE OF
PAYMENTS ISSUES.

ON INFLATION WE WILL NATURALLY WANT TO RAISE THE QUES-
TION OF HOW FAR THE RECENT ACCELERATION REPRESENTS A

SHIFT TO A HIGHER LEVEL OF INFLATION, AND HOW MUCH OF
IT IS PURELY TEMPORARY. IN THIS CONNECTION WE ARE
INTERESTED IN:

(A) THE RECENT SLOWDOWN IN PRODUCTIVITY AND WHAT THIS
MAY PRESAGE FOR PRICE DEVELOPMENTS;

(B) THE DEVALUATION OF THE DOLLAR AND TO WHAT EXTENT
THIS HAS ALREADY CONTRIBUTED, AND MAY BE EXPECTED TO
FURTHER CONTRIBUTE TO WORSENER INFLATION;

(C) POLICY CHANGES ADDING TO INFLATION (SOCIAL SECURITY
TAXES, MINIMUM WAGE LAWS AND THE AGRICULTURAL BILL THAT
RECENTLY PASSED THE SENATE).

WE WOULD ALSO LIKE TO COVER MORE GENERAL ISSUES SUCH AS
WAGE DETERMINATION IN THE U.S. - ESPECIALLY AS 1979 IS
GOING TO BE A HEAVY BARGAINING YEAR. HOW DO UNEMPLOY-
MENT AND PRICE RISES AFFECT WAGES? WHAT, IF ANY, DIF-
FERENCES ARE THERE BETWEEN THE UNIONISED AND NON-
UNIONISED SECTORS? AND HOW LONG ARE THE LAGS INVOLVED.
RISKS OF SPARKING OFF A WAGE-PRICE SPIRAL SEEM WORSE
NOW THAN ANY TIME SINCE THE RECESSION. GIVEN THE SERI-
OUS INTERNATIONAL CONSEQUENCES OF A SLOWDOWN IN U.S.

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ACTIVITY, WE WOULD LIKE TO RAISE THE ISSUE OF INCOMES POLICIES OR MEASURES OTHER THAN GENERAL DEMAND MANAGEMENT TO BREAK THE INFLATION SPIRAL AND TO REDUCE THE UNDERLYING RATE OF INFLATION. IT IS IMPORTANT FOR US THET WE GET SOME IDEA OF HOW SPECIFICALLY OR VIGOROUSLY WE SHOULD DISCUSS INCOMES POLICIES, AND WHAT SORT OF OPTIONS ARE CURRENTLY UNDER CONSIDERATION (WALLICH'S TIP PROHOSALS ARE INTRIGUING; WHAT IS THE SCOPE FOR COST-REDUCING CUTS IN TAXES ARD OTHER PUBLIC CHARGES IN THE U.S.?) LAST YEAR WE FELT THE ADMINISTRATION WAS TOO SENSITIVE TO THIS ISSUE FOR US TO BE ABLE TO DISCUSS IT IN THE SURVEY.

ON THE BALANCE OF PAYMENTS WE PLAN TO TRACE THE LONG-TERM GENESIS - AS WELL AS THE SHORT-TERM FACTORS BEHIND - THE CURRENT U.S. DEFICIT. ENERGY POLICY WILL NATURALLY LOOM LARGE IN OUR DISCUSSION. BUT WE ARE PARTICULARLY INTERESTED IN THE ADJUSTMENT MECHANISM OVER THE MEDIUM TERM - HOW FAR THE DOLLAR'S DEPRECIATION CAN BE EXPECTED TO REDUCE THE DEFICIT. AS YOU KNOW, OTHER COUNTRIES ARE KEEN ON GREATER U.S. SUPPORT FOR THE DOLLAR: WE WOULD

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LIKE TO BE ABLE TO DOCUMENT THE IRHERENT DIFFICULTIES OF OPERATIONS DESIGNED TO MAINTAIN A TARGET EXCHANGE RATE, QUITE APART FROM THE WISDOM OF SUCH A POLICY.

OTHER, THOUGH PARTLY RELATED, SUBJECTS WHICH WE WOULD LIKE TO DISCUSS CONCERN THE CYCLICAL WEAKNESS OF PRODUCTIVE INVESTMENT, THE PROFIT SITUATION, THE SHORT AND MEDIUM-TERM ROLE OF THE PUBLIC SECTOR IN ENSURING ADEQUATE GROWTH AND THE MORE GENERAL ISSUE OF THE "FULL EMPLOYMENT" UNEMPLOYMENT RATE AND POTENTIAL OUTPUT GROWTH.
END TEXT
SALZMAN

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